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TO RUEHC/SECSTATE WASHDC 0467  
INFO RUCPCIM/CIMS NTDB WASHDC  
RUCPDOG/DEPT OF COMMERCE WASHDC  
RUEATRS/DEPT OF TREASURY WASHDC  
RUCNCIS/CIS COLLECTIVE 0244  
RUEHAK/AMEMBASSY ANKARA 2090  
RUEHBUL/AMEMBASSY KABUL 0346  
RUEHNE/AMEMBASSY NEW DELHI 0471  
RUEHAST/USOFFICE ALMATY

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SIPDIS

DEPT FOR SCA/CEN (O'MARA)  
DEPT PASS TO OPIC - BALLINGER  
DEPT PASS TO TDA FOR STEIN, EXIM FOR GLAZER  
DEPT PASS TO AID - EE-PHILLIPS/RUSHING  
TREASURY FOR OASIA/VELTRI  
USDOC FOR 4231/ITA/MAC/MLONDON, 4201/BISNIS  
USDOC FOR 6110/ITA/TD/BI/RHALPERN  
ANKARA FOR CFC

SIPDIS

E.O. 12958: N/A  
TAGS: [ECON](#) [EIND](#) [ENRG](#) [EPET](#) [EFIN](#) [KZ](#)  
SUBJECT: KAZAKHSTAN ECONOMIC AND ENERGY UPDATE, JULY 29 - AUGUST  
24, 2007

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¶1. Summary: This information is drawn primarily from the Kazakhstani local press, and has not been checked for accuracy. The opinions and policies expressed in this report are those of the authors, not the U.S. Government.

-- Inflation in July and Tenge Depreciation  
-- Legalization Campaign is Over  
-- Economic Statistics  
-- Eni Officially Announces Kashagan Delay  
-- KazMunayGas to Explore "Nursultan" Field Independently  
-- KazMunayGas Appoints Two Additional Vice-Presidents  
-- ExxonMobil Kazakhstan Offices Move to Astana and Atyrau  
-- Oil & Gas Statistics in January-June 2007  
Inflation in July and Tenge Depreciation  
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¶2. According to the Statistics Agency, July inflation was 0.9%, one-tenth higher than a month ago. July-on-July inflation was 8.8%. In contrast to June, prices for non-food products showed the most significant growth of 1.4%; prices of food products grew by 0.8%, and prices for services by 0.6%. Panorama newspaper commented that the 12.7% growth in prices for construction materials and the 6% increase in prices for fuel played a key role in July inflation.

¶3. The tenge broke its appreciation streak against the dollar in July. Since July 24, when the tenge closed against the dollar at 122.0 KZT / \$1, the currency has steadily weakened to 125.1 KZT / \$1 on August 23. According to Delovaya Nedelia newspaper, the tenge's depreciation could be explained mainly by the increased outflow of currency from the country due to: the increased cost of external debt servicing, the increase in repatriated corporate profits, and the growth in imports of goods and services. (Delovaya Nedelia newspaper, August 3)

¶4. In order to minimize the impact of rising inflation in recent months, the National Bank of Kazakhstan (NBK) plans to raise its rates. According to Anvar Saidenov, Chairman of the National Bank, the refinancing rate might be raised in October to 9.5% (Note: The NBK's current refinancing rate is 9%. End Note.); rates on the

National Bank's notes would be increased by 0.5 to 1%. In addition, the NBK intends to increase minimal reserve requirements for second-tier banks starting August 29. This last measure will help to withdraw 72 billion tenge (approx. \$580.6 million) from circulation, said Saidenov. (Interfax - Kazakhstan, August 7, and Izvestiya newspaper, August 9)

#### Legalization Campaign is Over

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15. Russian newspaper "Kommersant" called amnesty of property and capital in Kazakhstan the most successful such campaign in the world. In the span of the (approximately year-long) program, the Kazakhstani government legalized property and capital totaling about 6.7 billion USD, roughly equivalent to 1/3 of the government's budgetary expenditures, or 8.7% of the GDP. (Kommersant newspaper, August 6)

#### Economic Statistics

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16. From January to June of 2007 Kazakhstan's gross domestic product (GDP) grew by 10.2% in real terms on an annualized basis, Vice Minister of Economy and Budget Planning Saparbayev reported to the Government on August 7.

17. In addition, Saparbayev said that the first half of the year was marked by a significant growth of imports over exports: imports rose by 48.8%, while exports rose by only 25.8%. Total foreign trade amounted to \$36.6 billion: imports were \$14.8 billion and exports \$21.8 billion. Aggregate trade grew by 34.2% during January-June 2007, compared to the same period in 2006. (Interfax - Kazakhstan, August 7)

18. According to the National Bank, as of July 31, 2007, Kazakhstan's international reserves were \$41.5 billion (at current

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exchange rates), including \$18.1 billion accumulated in the National (Oil) Fund. (Press-Service of the National Bank, August 2)

#### Eni Officially Announces Kashagan Delay

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19. Eni, the operator of the North Caspian project, officially notified Kazakhstan's Energy Ministry that the start of commercial production at the project's Kashagan field would likely be delayed until the second half of 2010. According to Energy Minister Izmukhambetov, since the Ministry is looking into new expenditures associated with the project, it is not time yet to talk about compensation to be paid by Agip KCO for the delay. "The delay was due to additional work required to ensure that the people living in the vicinity of Kashagan, the employees and the environment are safe," the Minister stated. "On August 6 we are planning to embark on a month-long negotiation on the project. Once consensus is reached, project parameters will be set," Izmukhambetov said.

110. The Government of Kazakhstan might review the contract with Eni, Prime Minister Masimov stated at a GOK meeting on July 30. "I urge you to treat this issue seriously. I am warning the company through the mass media that we view the change in the timeframe for the Kashagan project as a change in the contract itself. Our response will match the company's actions," the Prime Minister said. Agip KCO is owned by Eni, Total, ExxonMobil, Royal Dutch/Shell which have 18.52% each, ConocoPhillips with a 9.26% share, and Inpex and KazMunayGas, which have a 8.33% share each. (Interfax - Kazakhstan, July 30)

#### KazMunayGas to Explore "Nursultan" Field Independently

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111. Kazakhstan's national oil and gas company KazMunayGas will explore the Nursultan field (Block "N" in the Kazakhstani sector of the Caspian Sea) on its own, Energy Minister Izmukhambetov said in his interview with "Express-K" newspaper on July 28. According to Izmukhambetov, "This is a promising project based on location and

expected reserves. If we confirm expectations, only then will we consider whether to invite other companies to participate in the project." Earlier estimates put the geological resources of Block "N" at 637 million tons of equivalent fuel. ("Express-K", July 28)

#### KazMunayGas Appoints Two Additional Vice-Presidents

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¶12. KazMunayGas (KMG) has created two new posts of vice-president with the purpose of improving organizational structure. Mr. Ulan Baizhanov, who worked as KMG Chief of Staff, has been appointed Vice-President/Chief of Staff. Mr. Kaireldy Kabyldin, who worked as KMG Managing Director for Transport Infrastructure and Service Projects, has been appointed Vice-President for Oil and Gas Transportation, Service Projects, Oil Refining and Petrochemicals. (KMG Press-Service, July 27)

#### ExxonMobil Kazakhstan Offices Move to Astana and Atyrau

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¶13. ExxonMobil Kazakhstan has moved its main office from Almaty to Atyrau to be closer to the operational management of the Tengiz and Kashagan projects in the Caspian region, the company said in a press release on July 16. ExxonMobil's Department of Government Relations and Public Affairs has moved to Astana. The company resumed its work in new locations on July 10. (Interfax - Kazakhstan, July 30)

#### Oil & Gas Statistics in January-June 2007

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¶14. According to the National Statistics Agency, from January to June 2007, Kazakhstan produced 27.1 million tons of crude oil, down 5.2% from the same period in 2006. During the first six months of 2007 Kazakhstan produced 14.7 billion cubic meters of natural gas, 26.4% more than in the first half of 2006. Oil refining in January-June amounted to 6.0 million tons, a 9% increase compared to the same period in 2006. (Interfax - Kazakhstan, July 30)

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